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SUBJECT: MARCH 22 MEETING OF THE AEC WEALTH SHARING WORKING GROUP

¶1. Summary: The March 22 meeting of the Wealth Sharing working group of the AEC focused on the introduction of the new currency, which has been one of the relative success stories in the CPA. The Governor of the Central Bank used the meeting to complain of slow delivery of donor support for the CPA-mandated project. It was agreed that the Ministry of Finance should be invited to meet with the working group in May to discuss the implementation of the new fiscal federalism model. End Summary.

¶2. A meeting of the Assessment and Evaluation Commission Working Group on Wealth Sharing was held on March 22. The meeting was chaired by the U.S. Charge d'Affaires and was attended by representatives from Italy, Kenya, NCP, Norway, U.K., U.S. and observers from EC, and the UN. The invited speaker was Governor of the Central Bank, Dr. Sabir Hassan, who delivered a presentation on the implementation of the new currency, the Sudanese Pound.

¶3. Dr Hassan described the currency project as one of cooperation between the GNU and the GOSS, with the Central Bank as the lead agency. He noted that legally the Bank of Southern Sudan is a branch of the Central Bank and is not a separate entity. The new currency was designed jointly by Northerners and Southerners. The World Bank and Norway provided assistance with the funding for the design aspect of the project.

¶4. The Governor noted that the budget for the currency exchange program is \$150 million, with most donor funding channeled through two Multi Donor Trust Funds. He stressed that there had been delays in the project caused by shortfall in financing from international donors. To resolve this delay, the bank drew on the Oil Revenue Stabilization Account (ORSA). The arrangements for the procurement of paper, ink and other materials had followed World Bank procedures. The printing of the currency and minting of coins was done in Sudan. Distribution of the new currency commenced January 9, 2007, the second anniversary of the signing of the CPA.

¶5. The Dinar and the new Pound will co-circulate until June 30, 2007. After June 30, the Dinar can be exchanged at commercial banks for one month. After August, the Dinar can only be converted at the Central Bank. The Governor expects that, by the end of May, 90 percent of the Dinar notes in circulation in the North will have been withdrawn. In the South, the situation is more complex as there is less coverage by the commercial banks.

¶6. The Governor flagged three specific challenges ahead. First, the financing to be provided by the international community for the project needs to be speeded up. Secondly, the security situation in the South needs to be addressed; while security is primarily the responsibility of the government, the bank will have to incur some expenses as well. Finally, there is a need for an ongoing awareness campaign for the new currency.

¶7. In the question and answer session following the presentation, the Governor returned to the theme of the delays in disbursements of donor contributions. He stated that while the cost of the currency

exchange was initially an argument against the project, the political decision had been made to adopt a new currency and the international community had agreed to share the cost. Delays in international support had caused the GNU to draw funds from the ORSA to move forward. This loan from ORSA funds should be repaid. The Governor also noted that security concerns had caused some delays in the conversion in the South.

18. The Governor concluded his remarks by stressing that the lack of a common currency in the South has been a major problem. The economy of the South is based on barter. The monetary economy is fragmented. Resolving this is a major breakthrough for the South and will be a stimulus to economic activity and will allow citizens there to buy sell and transact business to the benefit of all.

19. Under Any Other Business, the NCP representative suggested that the Minister of Finance be invited to meet with the Working Group at the meeting scheduled for May 3 in order to discuss the implementation of the recommendations made by the FFAMC for the new fiscal federal system. There was consensus with this suggestion.

110. Comment: Following up on the meeting, on March 23, econoff met with the Norwegian official who has followed the currency issue most closely, Endre Stiansen. Stiansen arranged a conference call with Ake Lonnberg of the IMF in Washington to discuss the status of IMF and World Bank actions. Lonneberg confirmed that a final draft of the IMF appraisal had been sent to Governor Sabir earlier in March and the IMF is awaiting the Governor's reply. Lonneberg has been in touch with the World Bank and confirmed that the World Bank is in discussions with the Central Bank of Sudan to finalize the budget for the project. The World Bank has also requested that an international audit firm be appointed for the project (the Sudan affiliate of Ernst and Young is being considered) and the IBRD has also asked for further details about the plan for the conversion of the currencies in the South. A consultant from the IBRD, paid for

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by Norway, will be coming out to Sudan soon to offer assistance to the Bank of Sudan with these items. End Comment.

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